

Greentown Management (9979 HK)

1H22 results: structure change is the key

Company reported 33% YoY rise in 1H22 NP to RMB361mn. Core net profit (excl. interest income from third parties and government grants) was up +28% YoY to RMB310mn, 1.7% ahead of our estimation, mainly driven by GPM improvement and better profit mix. NP margin improved to 28.7% in 1H22 from 25% in 1H21. (Figure 1) Company's business structure reform is proceeding in a good way where **1)** Contribution from Government PJM to gross profit up 2ppt to 25% in 1H22 from 22% by the end of FY21 (Figure 2). **2)** Commercial project mandated by SOEs and FIs took 29% of total contracted GFA in 1H22 comparing 22% at the end of FY21 suggesting increasing demand from main force of land acquirers and distressed assets (Figure 3). **3)** Increasing revenue proportion of self-operated projects (from 56% by end of last year to 65% in 1H22) (Figure 4) driven GP margin up 4 ppt to 50.4%. These shifts in structure and the trend of GPM are likely to continue according to management. We maintain our BUY rating with target price of HK\$8.09, representing 18x 2022E P/E.

■ Commercial PJM: shifting client structure + improving profitability

1) The segment delivered 1% YoY decline in 1H22 revenue as it was inevitably affected by the weak sales of entire property market especially for projects mandated by POEs who have less willingness to acquire land and most are under liquidity pressure which cause slower capital injection to projects. **2)** While projects entrusted by SOEs and FIs saw more demands from land market rescuers and distressed assets acquirers, and their high standard on business partners makes Greentown Mgmt. chose self-operating model more often which results in higher GP margin of the projects. Meanwhile, the capital PJM entrusted by FIs have higher price premium as it is easy to rebuild home buyers', investors' and lenders' confidence towards problematic projects if Greentown Mgmt. were involved. The segment GPM lifted 49.7% in 1H22 from 44.9% in 2021. **3)** Without precise data on client structure within the commercial PJM segment, we did an estimate that shows proportion of projects entrusted by FIs and SOEs surged to 29% in 1H21 from 22% in 2021 in terms of contracted GFA. The trend has also appeared in structure of new contact value where POEs proportion lowered to 40.2% in 1H22 from 42.5% in 2021 suggesting the further structure shifting in future. To sum up, the segment is facing revenue downsizing but profitability is improving, or to say, **company is making more money through less business volume in this segment**, which cannot be seen as a negative. From this point of view, property market downturn is not that scary for the company. (to be continued...)

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,813	2,243	2,766	3,241	3,721
YoY growth (%)	-9.1	23.7	23.3	17.2	14.8
Net income (RMB mn)	439	565	719	857	982
EPS (RMB)	0.26	0.29	0.37	0.45	0.51
YoY growth (%)	15.4	12.4	27.2	19.2	14.6
Consensus EPS (RMB)	N.A.	N.A.	0.45	0.58	0.71
P/E (x)	20.8	18.5	14.5	12.2	10.6
P/B (x)	3.0	3.1	2.9	2.7	2.4
Yield (%)	3.1	3.7	4.1	4.9	5.6
ROE (%)	14.3	16.9	19.9	21.8	22.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$8.09**
 Up/Downside **+24.2%**
 Current Price **HK\$6.51**

China PJM Sector

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Stock Data

Mkt Cap (HK\$ mn)	13,085
Avg 3 mths t/o (HK\$ mn)	16.67
52w High/Low (HK\$)	7.20/3.06
Total Issued Shares (mn)	2,010
Source: Bloomberg	

Shareholding Structure

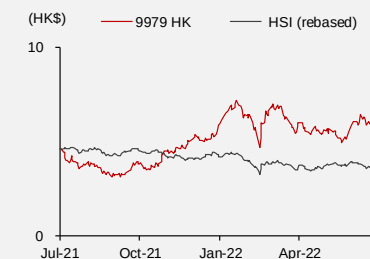
Greentown China Holdings Ltd	71.28%
SUPUR Industrial capital	2.91%
LOU GONGWANG	1.23%
Source: HKEX	

Share Performance

	Absolute	Relative
1-mth	8.8%	18.2%
3-mth	7.7%	5.9%
6-mth	8.4%	23.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

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■ **Government PJM: margin shrank + revenue surge = still high GP growth**

The segment was obviously benefited from national affordable housing construction plan and the revenue surged +74% YoY to RMB 381mn in 1H22, but the GP margin shrank to 42.2% in 1H22 from 44.7% in 1H21 mainly due to business expansion to new area. (stepped in to Sichuan, Chongqing and Anhui in 2022). While shrinking margin and surging revenue jointly brought segment gross profits up 64% YoY to RMB 161mn in 1H22. With continuous national expansion, we expect GP margin of segment to stay low in recent years. The diversification of project type in the segment brought more imagination space such as industrial park, old town renovation and military housing reform that requires license.

■ **Other services: warning for potential revenue drop (if no new source)**

Segment reported revenue of RMB112.5mn in 1H22, +27% YoY from RMB88.8mn in 1H21. RMB95.7mn (85% of total) was coming from a project tendered by company's parentco prior to listing and most of costs were booked on parentco's sheet. It is worth noting that other services segment contributed 8% of total revenue and 15% of total gross profit in 1H22, which means if the project has been completed at some point and company has no new source to fill the gap, there will be 7.6% of total revenue and >10% of total gross profit at risk.

■ **Still a quality choice in broader property market as 1) company showed certain resilience against market downturn by above-mentioned structure shifting. 2) Company is getting more positive attention as people believe PJM companies should play a bigger role in "housing delivery campaign", this effect would be more obvious when peers like CIFI, Gemdale etc. disclose their progress on PJM industry during 1H22 reporting season. 3) most of other options in broader property market are still clouded by debt maturity peak and still-weak property sales. As such, we maintain our BUY rating with target price of HK\$8.09, representing 18x 2022E P/E. Risks: 1) another wave of massive lockdown; 2) weaker-than-expected property sales in 2H22; and 3) negative press reports about parentco.**

Figure 1: 1H22 results summary

RMB mn	1H21	1H22	yoy	vs. 1H22E	1H/FY21	1H/FY22E
Revenue	1,081	1,259	16.4%	-3.2%	48%	45%
Commercial project management	772	765	-1.0%	-13.4%	52%	44%
Government project management	220	381	73.5%	19.4%	38%	46%
Other services	89	112	26.7%	15.2%	46%	53%
Gross profit	513	635	23.7%	5.9%	49%	51%
GP margin	47.5%	50.4%	3.0 ppt	4 ppt		
GPM - Commercial project	45.1%	49.7%	4.6 ppt	5 ppt		
GPM - Government project	44.7%	42.2%	-2.5 ppt	1 ppt		
GPM - Other services	75.0%	83.6%	8.6 ppt	10 ppt		
Net profits attributable to shareholders	270	361	33.4%	7.0%	48%	50%
NP margin	25%	29%	4 ppt	3 ppt		
Core net profits *	242	310	28.0%	1.7%		
EPS (RMB)	0.14	0.19	32.4%	6.1%	48%	50%
Diluted EPS (RMB)	0.14	0.18	32.7%	n.a.		
Newly contacted GFA (mn sqm)	12.0	13.2	10.3%	n.a.	53%	48%
Estimated service fees of new contacts (RMB bn)	3.22	4.06	26.1%	n.a.	45%	48%
Total contracted GFA (mn sqm)	84.0	94.3	12.3%	5.1%		

Note*: excluded interests income from loan to third parties and government grants

Source: Company data, CMBIGM

Figure 2: revenue and gross profit mix

%	1H21	2021	1H22
Revenue mix			
Commercial project management	71%	66%	61%
Government project management	20%	25%	30%
Other services	8%	9%	9%
Gross profit mix			
Commercial project management	68%	64%	60%
Government project management	19%	22%	25%
Other services	13%	14%	15%

Source: Company data, CMBIGM

Figure 3: Client structure change from FY21 to 1H22

mn sqm	Total contracted GFA		as % of total	
	2021	1H22	2021	1H22
Commerical PJM	50.5	60.5	60%	64%
Entrusted by SOEs	16.5	24.1	19%	26%
Entrusted by POEs	31.6	33.2	37%	35%
Entrusted by FIs	2.4	3.2	2.8%	3.4%
Government PJM - Entrusted by government entities	34.2	33.8	40%	36%
Total	84.7	94.3	100%	100%

Source: Company data, CMBIGM estimates

Figure 4: revenue mix by operating model

	%	2021	1H22
Project management business			
Self-operated		56%	65%
Cooperation with business partners		42%	26%
Other services		9%	9%

Source: Company data, CMBIGM

Figure 5: Valuation table (as of 20220729)

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$ mn)	Mkt Cap (HK\$ mn)	P/E			Net profit growth %	
						21A	22E	23E	22E	23E
PJM										
Greentown Management	9979 HK	Buy	8.1	6.5	12,442	17.6	13.8	11.6	27.2	19.2
Central China Management	9982 HK	Hold	1.4	0.9	3,421	2.9	2.8	3.1	3.3	-7.7
Average						14.4	11.4	9.8	22.1	13.4
PM										
Country Garden Services	6098 HK	Buy	47.6	17.5	58,894	10.4	8.5	6.3	40.7	35.0
CR MixC Lifestyle	1209 HK	Buy	44.3	33.3	76,007	40.0	28.9	22.0	26.4	31.1
A-Living	3319 HK	Hold	34.2	9.6	13,618	4.5	4.4	3.8	9.9	16.6
Greentown Services	2869 HK	Hold	7.9	7.0	22,772	20.0	18.4	14.4	21.1	27.4
Ever Sunshine	1995 HK	Hold	12.7	5.7	9,919	12.3	9.4	7.1	38.0	35.8
Poly Services	6049 HK	Hold	53.4	45.4	25,094	23.4	20.0	15.6	22.0	27.4
S-Enjoy	1755 HK	Sell	8.5	6.6	5,755	6.8	5.9	4.3	53.0	34.5
Powerlong Commercial	9909 HK	Buy	33.2	4.1	2,636	4.8	3.9	3.1	22.5	25.4
Excellence CM	6989 HK	Buy	14.9	3.2	3,942	5.9	4.4	3.3	47.7	32.2
Central China New Life	9983 HK	Buy	12.9	3.3	4,220	5.5	4.6	3.7	28.8	22.9
Sino-Ocean Services	6677 HK	Buy	7.1	2.6	3,078	6.0	4.5	3.1	32.2	36.3
New hope Services	3658 HK	Buy	4.4	1.9	1,585	6.8	4.0	n.a.	83.5	n.a.
Redsun Services	1971 HK	Buy	9.4	2.7	1,125	5.9	5.1	3.9	41.2	32.2
Evergrande Services	6666 HK	Buy	10.4	2.3	24,865	5.9	4.5	3.4	n.a.	31.2
Sunac Services	1516 HK	Buy	7.0	3.4	10,302	6.5	5.4	4.3	21.9	25.6
Average						19.8	15.3	11.7	27.0	30.3

Source: Company data, Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,813	2,243	2,767	3,242	3,722
Commercial	1,312	1,478	1,723	2,002	2,286
Government	310	572	831	1,003	1,171
Other service	191	194	213	237	265
Cost of sales	(947)	(1,203)	(1,511)	(1,734)	(1,982)
Gross Profit	866	1,041	1,255	1,507	1,740
Selling and marketing expenses	(48)	(93)	(55)	(65)	(74)
Administration expenses	(331)	(378)	(439)	(510)	(582)
Listing fee	(34)	-	-	-	-
Other gains and losses	(31)	(10)	-	-	-
Operating profit	422	560	762	933	1,084
Finance cost - net	47	110	96	101	107
Pre-tax Profit	525	722	910	1,08	1,243
Income tax	(117)	(152)	(191)	(228)	(261)
Discontinued operations	5	-	-	-	-
PROFIT FOR THE YEAR	412	571	719	857	982
Non-controlling interest	(27)	5	-	-	-
Net Profit attribute to	439	565	719	857	982

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	412	571	719	857	982
D&A	24	25	24	24	24
Change in working capital	503	57	52	(9)	12
Others	(81)	(119)	(191)	(228)	(261)
Net cash from operating	903	566	698	771	910
Capex	(6)	(21)	(39)	(46)	(56)
Advance/repayment of long-term receivables	(110)	(238)	-	-	-
Others	24	(238)	81	84	81
Net cash from investing	(92)	(497)	43	37	26
Dividends paid	(15)	(333)	(431)	(514)	(589)
Advance from/repayment of a related party	(524)	25	-	-	-
Proceeds from issue of new shares	1,184	-	-	-	-
Others	(159)	(15)	(6)	(6)	(6)
Net cash from financing	486	(322)	(437)	(520)	(595)
Net change in cash	1,258	(260)	303	288	341
Exchange difference	(39)	(6)	-	-	-
Cash at the beginning of the year	1,139	2,397	2,138	2,441	2,729
Cash at the end of the year	2,397	2,138	2,441	2,729	3,070

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	3,321	3,701	4,348	4,948	5,604
Bank balances and cash	2,397	2,138	2,441	2,729	3,070
Trade and other receivables	388	749	924	1,082	1,242
Contract assets	317	482	595	697	800
Amounts due from related parties	203	240	296	347	398
Other current assets	16	92	92	92	92
Non-current assets	1,427	1,543	1,564	1,587	1,619
Property, plant and equipment	98	102	120	140	167
Right-of-use assets	18	17	19	23	27
Investment properties	53	47	47	47	47
Goodwill	769	769	769	769	769
Interests in associates and JVs	161	244	244	244	244
Long-term receivables	210	238	238	238	238
Other non-current assets	117	126	126	126	126
Total assets	4,748	5,244	5,912	6,534	7,222
Current liabilities	1,619	1,844	2,239	2,541	2,868
Trade and other payables	819	943	1,185	1,360	1,554
Amounts due to related parties	199	246	309	355	405
Contract liabilities	396	385	475	556	639
Others	205	270	270	270	270
Non-current liabilities	26	29	29	29	29
Deferred tax liabilities	17	19	19	19	19
Lease liabilities	9	10	10	10	10
Total liabilities	1,645	1,872	2,267	2,570	2,897
Equity to shareholders	3,075	3,341	3,614	3,934	4,295
Share capital	16	16	16	16	16
Reserves	3,059	3,325	3,598	3,918	4,279
Non-controlling interests	27	30	30	30	30
Total Equity	3,102	3,372	3,645	3,965	4,326

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Commercial	72.4	65.9	62.3	61.8	61.4
Government	17.1	25.5	30.0	30.9	31.5
Others	10.5	8.6	7.7	7.3	7.1
Total	100.0	100.0	100.0	100.0	100.0
Growth (%)					
Revenue	-9.1%	23.7%	23.3%	17.2%	14.8%
Gross profit	-1.8%	20.2%	20.6%	20.1%	15.4%
Operating profit	-22.5%	32.8%	36.0%	22.5%	16.2%
Net profit	35.3%	28.7%	27.2%	19.2%	14.6%
Profit & loss ratios (%)					
Gross profit margin	47.8	46.4	45.4	46.5	46.8
Net profit margin	24.2	25.2	26.0	26.5	26.4
Effective tax rate	22.4	21.0	21.0	21.0	21.0
Balance sheet ratios					
Cash/total assets (%)	0.5	0.4	0.4	0.4	0.4
Current ratio (x)	0.9	0.8	0.7	0.6	0.6
Receivable turnover days	78	122	122	122	122
Payable turnover days	315	286	286	286	286
IBL to total assets	0.02	0.00	0.00	0.00	-
Returns (%)					
ROE	14.3	16.9	19.9	21.8	22.9
ROA	9.3	10.8	12.2	13.1	13.6
Per share					
EPS (RMB)	0.26	0.29	0.37	0.45	0.51
DPS (RMB)	0.17	0.20	0.22	0.27	0.31
BVPS (RMB)	1.83	1.74	1.88	2.05	2.23

Source: Company and CMBIGM estimates

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